Santander's net profits cut by a quarter following referendum

By Ben Martin

SANTANDER has been hit by Britain's decision to leave the European Union after sterling's plunge following the referendum knocked UK revenues at the Spanish banking giant.

The pound's steep devaluation against the euro since the vote hit the net profits Santander generated in the UK by 24pc to €364m (£325m) during the third quarter. Nathan Bostock, the chief executive of Santander's UK business, warned that "although we have not seen a material impact on our business in the short period since the EU referendum, we do expect a more challenging macroeconomic environment ahead".

His caution contrasted with the more confident tone from high street rival Lloyds Banking Group and challenger Metro Bank, which posted results yesterday. Lloyds boss Antonio Horta-Osorio said that while some businesses had deferred investment and borrowing, consumers had been unfazed by Brexit. However, he conceded that it was too early to discern longer term trends.

Santander UK said: "The UK's decision to leave the EU has led to economic uncertainty and financial market volatility which we expect to continue.

"In the near-term, we expect this to result in lower consumer confidence and, over time, lower economic growth. In addition, the lower value of sterling,

€364m

Santander's third-quarter net profits were hit badly by the pound's steep devaluation against the euro

when combined with an ongoing increase in oil prices, is likely to lead to higher inflation." Last month, the business lowered its profitability target to account for the vote and record low interest rates, which were cut by the Bank of England to shore up the economy in the wake of the referendum.

Like Lloyds, Santander UK also disclosed that its pension schemes have been hit by falling bond yields following the vote, swinging to a £258m deficit from a £483m surplus a year earlier.

While pre-tax profits were up 9pc to £1.6bn in the first nine months of the year, the third-quarter picture was much less rosy, with profits sliding to £477m from £496m in 2015. Its quarterly net interest margin fell to 1.47pc from 1.52pc. Significantly, the UK business fell behind Santander's Brazilian business as the biggest contributor to group profits. The UK accounted for 19pc in the three-month period, while Brazil generated 20pc.

Overall, Santander's group net profits edged up 0.9pc to €1.7bn.

Lloyds sets aside £1bn more for PPI claims, amid Brexit optimism

By Ben Martin

LLOYDS Banking Group has taken another £1bn hit to cover payment protection insurance claims in a move it hopes will finally draw a line under the long-running mis-selling scandal that has hung over the lender.

The bank, which is still 9pc-owned by the taxpayer, has been the lender most affected by PPI and the latest provision takes the total amount it has set aside to handle the scandal's fall-out to around £17bn.

It was forced to take a further charge after the Financial Conduct Authority this year proposed extending the deadline for PPI claims by a year to June 2019. The £1bn hit, which was bigger than some analysts expected, sent pretax profits at the bank slumping 15pc to a lower-than-expected £811m in the three months to the end of September.

On top of PPI, Lloyds took another £150m conduct provision, of which £100m related to packaged accounts.

Lloyds also confirmed speculation that, like other British companies, its pension scheme has been hammered by the bond market volatility in the wake of June's Brexit vote, with its defined benefit plans slumping from a £430m surplus at the end of June to a £740m net deficit now.

Its chief executive, Antonio Horta-Osorio, insisted, however, that he did not think the decision to leave the European Union would affect Lloyds "very much", even though the bank is almost entirely focused on the UK.

Mr Horta-Osorio said: "We think all retail activity, including credit cards, debit cards, mortgages, so consumer activity overall, is the same following Brexit, we do not see any significant change". However, he added that some businesses "have deferred elements in their investment plans and borrowing", a trend that started before the referendum although the Lloyds boss said the move "is significant but not very big".

Despite the PPI charge, Lloyds reported an improvement in its capital reserves, with its core tier one ratio increasing to 13.4pc from 13pc at the end of June. Some analysts were wary of the capital ratio increase, however, noting that it had been driven by a one-off

Antonio Horta-Osorio: 'We think consumer activity overall is the same following Brexit'

accounting change after Lloyds reclassified £20bn UK government bonds on its balance sheet.

As a result of those capital worries and the PPI provision, Lloyds shares slumped as much as 3.8pc only to rally and close up 1pc at 55.9p after George Culmer, Lloyds' finance chief, told analysts the bank would be able to pay a higher dividend this year.

The net interest margin, the key difference between what it pays to savers and the interest it receives from borrowers, stood at 2.69pc, better than 2.64pc it posted a year ago but down from the 2.74pc it reported at the end of June.

REUTERS

Helping hands Bill Gates met the Chancellor Philip Hammond at No 11 yesterday as a £15m scheme to tackle mosquito-borne diseases, backed by the UK, US and Brazil as well as the Bill and Melinda Gates Foundation and the Wellcome Trust, was unveiled.

Mortgage approvals down 15pc, but credit lending rises

By Marion Dakers

MORTGAGE approvals dropped 15pc last month as many Britons kept away from the property market, yet ultra-low interest rates helped to fuel a 6pc expansion in personal credit.

The British Bankers' Association (BBA) said members approved 38,252 loans to purchase a home in September, down 15pc on the same month last year and contributing to a 3pc decline in the year so far.

The full effects of the EU referendum in June on the housing market are still unclear, although in the early months since the vote it has been subdued.

The BBA figures for the big high street banks echo Bank of England data that showed the quietest month for mortgages in almost two years in August.

"Mortgage approvals picked up slightly this month, but the housing market continues to shows signs of underlying weakness," said the trade body's chief economist, Rebecca Harding.

Remortgages also lost pace last month, with 24,841 approvals broadly in line with the same time a year ago. A surge in activity earlier in the year has driven a 15pc rise in the first nine months of 2016, with homeowners taking out a total of £41bn from the equity in their properties.

Consumers are also taking on more unsecured debt, with credit rising 6.7pc compared with last September, outpacing a 5.4pc annual rise in retail sales in the third quarter.

The BBA said the rush for debt was at its fastest since December 2006. Customers added a net £175m to their credit card balances last month, taking the total outstanding to £42.6bn.

"Consumers are increasingly using short-term borrowing to take advantage of record low interest rates. This trend has accelerated since the Bank of England cut rates in August," said Dr Harding.

Metro Bank on brink of maiden profit as it dismisses Brexit fears

By Ben Martin

METRO Bank has shrugged off the Brexit vote to win more customers and boost lending, taking it to the cusp of reporting its first profit.

Craig Donaldson, chief executive of the challenger bank, said it had so far felt no impact from the vote to leave the European Union.

In the three months to the end of September, deposits jumped 66pc to £7.3bn compared with a year earlier and lending climbed 73pc to £5.2bn.

That helped Metro, which opens its 44th branch this week, narrow its statutory quarterly net losses to £416,000, from £10.7m in 2015, and helped it swing to its first underlying pre-tax profit of £567,000, which strips out certain expenses, including the cost of its stock market float in March.

Mr Donaldson said Metro was on course to post a statutory profit during the final quarter of 2016 and a maiden annual profit next year, with both retail and business customers seemingly unfazed by Brexit.

The bank enjoyed a record 68,000 increase in customer accounts to 848,000 in the previous quarter. "In the early part of next year we'll go through a million, which I think is a huge validation of what we're doing," he said.

"Genuinely we've seen no Brexit impact, if anything we're winning more customers and we're growing stronger.

Craig Donaldson: 'Genuinely we've seen no Brexit impact, if anything we're winning more customers'

Business customers are genuinely just getting on with building their businesses.

"The only place where we're seeing any impact is in house purchases over £3m in central London and I don't think that's got anything to do with Brexit, I think that's much more to do with the stamp duty changes that came in in April." Quarterly revenues surged 78pc to £53.4m, while Metro's net interest margin, the gap between interest paid on deposits and the loan interest it receives, edged up to 1.95pc from 1.93pc at the end of June.

The lender was founded by American billionaire Vernon Hill six years ago to challenge the established high street banks such as Barclays and Lloyds.

A review of the banking sector by the Competition and Markets Authority, which the challenger banks hoped would shake up the sector by making it easier for them to take market share, was branded a damp squib by many new entrants, including Metro, this year.

"It was a bit of a whitewash, I think that it'll have added no value to the competitive landscape," Mr Donaldson said, adding that he would continue to lobby the Treasury and the Prudential Regulation Authority ease capital rules to make it easier for challengers to compete.

Metro shares rose 1.4pc to £27.63, valuing the lender at £2.2bn.

IAG heads blue-chip index as deal reached on pensions gap

By Jillian Ambrose

BRITISH Airways helped push the share price of its parent company to the top of the FTSE 100 after the airline agreed a new recovery plan to plug its pension deficit by 2027.

Shares in International Airlines Group (IAG), which also owns Iberia and Aer Lingus, climbed 5.2pc to 422.7p after BA said it had signed a deal with the trustees of its New Airways Pension Scheme which will allow for dividend payments to its parent company.

British Airways' pension deficit has widened only slightly in three years from £2.7bn to £2.8bn at the end of March 2015, and the carrier has agreed to make payments of £300m a year until 2027 to eliminate the deficit.

The recovery phase could be even shorter if BA makes additional contributions of up to £150m a year. The extra contributions can be made if the company's cash exceeds £2.2bn at the end of the financial year.

In addition, if BA pays a dividend to IAG higher than 35pc of its profits it must either provide the pension scheme with a guarantee for the same amount above 35pc or half of that amount if it makes the contribution in cash.

The latest trustee deal reveals an improvement in financial health from its last triennial trustee talks.

The deal unveiled an increase in the value of BA's assets of £3.7bn to £13.3bn between March 2012 and March 2015. Over the same period, its liabilities rose by £3.8bn to £16.1bn, improving the funding ratio of assets relative to liabilities from 78.3pc to 82.7pc.

BA's new pension recovery deal comes following a summer of rising concern over the pension gaps at some of Britain's largest companies after the collapse of British Home Stores revealed a gaping hole in its pension fund of £571m on a buy-out basis.

Tesco said last month that its pensions black hole has widened by £3bn to more than £5bn, and last week Heathrow airport said its pension fund had swung from a surplus of £104m on December 31 to a deficit of £370m – a £474m loss in just nine months.

Axa to press ahead with plans to build City's tallest tower

By Marion Dakers

DEVELOPERS are pressing ahead with plans to build the City of London's tallest tower, after several months deliberating after the EU referendum.

Axa Investment Managers Real Assets, the property arm of the French insurance group, announced that it will continue building the new tower at 22 Bishopsgate, in a show of support for a patch of London that has spent a decade as a construction site.

The firm said it was confident "in how appealing this highly progressive development will be to all types of international and domestic occupiers".

Chief executive Pierre Vaquier said before the EU referendum in June that the firm might "revisit the options" in the event of a vote for Brexit, and the company reportedly spoke to its partners in August about delaying the next phase of construction or selling the project.

"Our ongoing commitment to 22 Bishopsgate reflects our firm belief… in this development project," Mr Vaquier said.